BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. GNR-E-02-01

REBUTTAL TESTIMONY OF RICHARD L. STORRO

REPRESENTING AVISTA CORPORATION

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Richard L. Storro. My business address is East 1411 Mission Avenue, Spokane, Washington, and the Company employs me as Manager of Power Supply.

Q. Have you provided direct testimony in this proceeding?

A. Yes.

Q. What is the scope of your rebuttal testimony?

A. My testimony addresses the issue of the first deficit year determination and whether it should remain in the calculation to determine the avoided cost rates. I also address a possible approach to determining the avoided cost variables

With respect to the first deficit year portion of the avoided cost calculation, I disagree that the first deficit year should be abandoned. The Company supports its initial proposal of a 2007 first deficit year. Retaining the first deficit year portion of the calculations provides for a more accurate determination of the Company's true avoided cost.

While our proposal for the avoided cost variables, based on information for the Northwest Power Planning Council (NWPPC) and recent market power purchase prices, is a fair and reasonable approach, I recognize that there can be legitimate differences and that all parties made good effort to determine variables for calculating avoided cost rates. The opinions of the witnesses in their direct prepared direct testimonies regarding the values to be used in determining avoided costs are all within a reasonable range. Therefore, a potential solution to determine the capital cost, O&M cost, heat rate and escalation rates is to use an average of the proposals from all parties. Mr. Kalich's rebuttal testimony calculates avoided cost rates based on the averaging the input variables from the parties. I also accept a possible solution to addressing the starting natural gas price that adopt's Commission Staff's proposal to use a 5-year rolling average for the starting gas price, ifa 50%/50% blend of Sumas and AECO gas prices is utilized.

Q. What is your response to IPUC Staff's and Mr. Trippel's proposal to abandon the first deficit year portion of the calculation?

A. Mr. Sterling states that the rationale for use of a first deficit year is sound. I strongly concur with his statement, but I don't agree that the implementation is so problematic that application of a first deficit year should be abandoned. The deficit year portion of the calculation is an important aspect of accurately reflecting the utilities' true avoided cost.

Q. How do you respond to Commission Staff's and Mr. Trippel's reasons for abandoning the first deficit year portion of the avoided cost determination?

A. Issues concerning the deficit year computation can be adequately addressed with some additional effort on the utilities part along with cooperation and discussion from the other parties.

The Company routinely provides information on its loads and resource (L&R) balance. The Company files an Integrated Resource Plan (IRP) every two years that contains an L&R. The Commission staff participates on the Technical Advisory Committee (TAC) that reviews the load forecast and resources included in the L&R. The Company is also willing to provide an annual update to the L&R as part of the annual avoided cost rate update.

Q. Do you agree that there is difficulty in determining if the deficit year should be based on energy or capacity?

A. No. I view qualifying facilities as being energy resources since they are not dispatchable by the utility, as would be the case with peaking resources that satisfy capacity needs. Therefore, the determination of the deficit year should be based on an annual energy L&R.

The deficit year also doesn't have to be determined the same way for each utility. I don't see a problem if utilities use different L&R criteria, which is in place for legitimate reasons not related to determining avoided cost rates.

Q. Does keeping the deficit year provide an incentive to the utility to increase its surplus period?

A. No. The avoided cost process is not going to be the driver of the Company's resource planning criteria. Avista's planning criteria includes maintaining a load/resource balanced position for five years out. We want to maintain this position so that we have adequate time to build resources before we are deficit, if that is in the best interest of our customers. We primarily maintain this position by making short to medium-term market purchases. We have made several purchases to be in load/resource balance through 2006 and have already made several purchases to cover a portion of future requirements though 2010. We have used the actual costs of these purchases as the surplus energy value in our avoided cost calculations.

Q. Do you agree with Mr. Trippel's opinion that the cost of addressing the issues surrounding the first deficit year is not worth the benefit for small projects?

A. No. Eliminating the first deficit year portion of the calculation increases Avista's avoided cost rates by $3.11/MWh according to the Commission Staff's calculations. On a 10 aMW purchase that amounts to over $250,000 per year or approximately $2.3 million present value over the 20-year life of the contract. There is significant cost to customers of abandoning the deficit year, and in my opinion warrants the effort to address the issues.

Q. Do you agree with Commission Staff's claim that avoided cost rates are not much higher when the deficit year is considered in the calculation of avoided costs?

A. No. Eliminating the deficit year adds millions of dollars of additional cost over the life of the contract. While a few dollars per megawatt-hour doesn't sound like much, it adds up to a significant amount over a 20-year contract, particularly if we enter into several contracts with qualifying facilities. Also it would be arbitrary and unreasonable to eliminate the deficit year calculation if the sole concern is the possibility of disagreement over determining the correct deficit year. Additionally, it is important to remember that the intent of the avoided cost methodology is to represent as accurately as possible the utility's true avoided cost. To ignore today's lower cost market purchase alternatives when determiing avoided cost rates would deny customers the chance to benefit from the lower market prices. I don't believe customers should pay significantly more in order to avoid some effort and discussions to determine the first deficit year.

Q. Do you believe there is a possible solution to determining the avoided cost variables other than Avista's proposal to use values from NWPPC?

A. Yes. A possible solution is to use the average of all the parties for the surrogate avoided resource (SAR) capital and O&M costs, heat rate and escalation rates.

Also, a possible approach to determining the starting natural gas price is to adopt Mr. Sterling's recommendation to use a five-year rolling average. If this solution were adopted, I would propose that itbe implemented using a 50%/50% blend of Sumas and AECO gas prices to better reflect actual gas purchases. Mr. Kalich and Mr. Gruber provide details and explanation of avoided cost rates based on the average of variables submitted by the parties.

Q. Can you please summarize your testimony?

A. Yes. First, I do not believe that it is appropriate to abandon the first deficit year portion of the calculation. Retaining the first deficit year portion of the calculation provides for a more accurate determination of the Company's true avoided cost. Second, while the Company stands by its proposal with respect to variables to be used to determine avoided cost rates, I believe that all parties made an honest attempt to address the issues in this proceeding. Because the opinions of the witnesses presented in their direct testimonies a reasonable range for the variables, a possible solution is to average the SAR costs and escalation rates. A possible solution for determining a starting gas price is to adopt Mr. Sterling's suggestion to use a 5-year rolling average. I propose this be done using a 50%/50% blend of Sumas and AECO gas prices.

Q. Does that conclude your pre-filed rebuttal testimony?

A. Yes.